MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM

The Advisor for our Active members

A periodic publication of the Massachusetts Teachers' Retirement System as a service to its members June 2015

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WHAT DO MEMBERS SAY ABOUT OUR PROGRAMS?

Member programs receive high marks

99% of survey respondents rated each program excellent or very good—the two highest ratings—and would recommend our programs to their peers

Over the last seven months, we presented two member programs at multiple locations across the Commonwealth:

- **Ready for Retirement**, our winter "nuts and bolts" seminar for members retiring this year; and,
- **Your MTRS Benefits**, our program providing general information about the retirement plan and MTRS member services.

The programs, which had a combined attendance of more than 2,700 members, received rave reviews. Below are some comments from attendees.

To make sure you hear about other MTRS seminars, please sign up for our e-mail list by going to mass.gov/mtrs and clicking "Join our e-mail list."

We hope you will join us at a future program!

The presentation was the best. Not only were my concerns addressed, but I left feeling informed and not as overwhelmed as I was when I entered. You have made this entire process much easier and less stressful!

What could have been a dry presentation of necessary information was actually not only informative, but also entertaining. Well done!

I walked away fully satisfied, with a fine understanding of the retirement picture.

I found the presenter professional, reassuring, knowledgeable, and well spoken. I will definitely attend again next year, as I plan for future retirement.

The professionalism and quality of information shared was most appreciated. No matter what question was asked, the presenters were able to answer in a very succinct manner.

All of the information presented was important and the booklet is so helpful. Answering members' questions was valuable.

MTRS
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM

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FROM THE CHAIRMAN

Retirement security: Back to the future?

Defined benefit plans still offer the most financial stability

As millions of baby boomers reach retirement age, the debate continues on how to help this generation and succeeding generations live comfortably when we stop working. The conventional wisdom is that defined benefit (DB) plans are too generous and too costly, so the push is on to rely on a combination of Social Security and voluntary IRAs, 401Ks, and other defined contribution (DC) accounts.

But the truth is, a well-designed and well-managed defined benefit plan *is* affordable. A good DB plan provides professional investment management and the ability to always invest for the long term, and it lets us share the risk that some of us may live "too long." If employer and employee contribution rates are calibrated with expected benefits, a DB plan can, and should, be sustainable for the long term. Over the past decade, the Legislature has enacted numerous changes and reforms to the MTRS and other Massachusetts public pension systems to help us achieve that goal.

But while we've been working to fix the defined benefit model, the defined contribution model has been falling apart. According to a recent report from the National Institute on Retirement Security, the median household approaching retirement age has only $14,500 in DC accounts. What will it cost the taxpayers to support a generation of impoverished elders when they become too sick or frail to work?

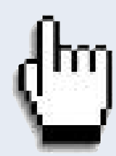
"I suggest we should be asking a different question: How can we offer the financial security of a defined benefit plan to all our fellow citizens?"

Across the country, people are asking whether we should get rid of defined benefit plans. I suggest we should be asking a different question: How can we offer the financial security of a defined benefit plan to all our fellow citizens?

My best wishes to you and your families for a healthy and happy summer.

Stay up to date on retirement issues—

Have retirement updates delivered right to your Inbox when you **join our e-mail list!**



Just give us your e-mail address and you'll get advance notice of upcoming seminars, important announcements and retirement news delivered right to your Inbox. It's easy!

1) Go to **mass.gov/mtrs**.
2) Click on **Join our e-mail list** in the right margin.
3) Complete the simple online form with your MTRS member status (active or inactive), name and your e-mail address.
4) Watch your e-mail for periodic updates!

New e-mail address? No problem—just send your old and new addresses to us at **geninfo@trb.state.ma.us** and we'll update our records so that you don't miss any updates!

WHAT'S IN YOUR ACCOUNT?

Your 2014 annual statement will arrive in June

Review your personal and financial information carefully; please notify us of any corrections

Every year, the MTRS sends annual statements of account to all active and inactive members who have funds in their annuity savings accounts. In June, annual statements will be mailed to our 88,700 active and 25,000 inactive members.

Q What happens to the money that I contribute to the MTRS?

A Your school district forwards your contributions to us and we establish and maintain an annuity savings account on your behalf for your retirement. Your account consists of:

- **contributions**, which are deducted from your paycheck by your school district, and
- **interest**, which is earned on your prior year's ending balance and credited at a rate determined annually by the Public Employee Retirement Administration Commission (PERAC). The rate is equal to an average passbook savings return.

Additionally, if you have purchased creditable service, your payments will be included in your annuity savings account balance.

Your statement will reflect your personal data (name, address, beneficiary designation) as well as financial information regarding any activity in your account, the amounts of after-tax contributions, pre-tax contributions, interest and the total balance as of the end of 2014.

When you receive your statement, please be sure to take a few moments to review the data for accuracy and completeness. Also, if you have not yet designated a beneficiary—or you need to update your beneficiary information—be sure to download a *Beneficiary Designation—Active and Inactive Member* form from our website and then submit your completed form to us.

As a reminder, if, at any time during the year, you need a statement of your MTRS annuity savings account balance—for instance, as documentation for a mortgage application or for some other legal issue—you may request one at any time. Simply contact us by phone or e-mail, and we will gladly send you a letter with this information.

SERVICE PURCHASE PROCESSING UPDATE

Service purchase caseload reduced by 60% since 2013

Thank you for your patience as we continue to process the still-substantial volume

Chapter 176 of the Acts of 2011—better known as "Pension Reform III"—had many long-term effects for our members. One of the most significant changes was an increase in the interest rate for most service purchases and refund buybacks.

As you likely heard, this change understandably resulted in many more members applying for service purchases than usual, which in turn caused a significant backlog of requests. In the first seven months of 2013 alone, we received 14,718 applications—a 407% increase over the same period in 2012!

We are pleased to report that, as of April 1, 2015, our current queue for service purchases and refund buybacks stands at 6,031—a 60% decrease since 2013, and a 45% decrease since 2014.

Our staff has been working nonstop to review your applications as quickly as possible, and we will continue to work hard at reducing that number even more. We greatly appreciate your patience over the last three years.

Retiring soon? If you are retiring within the next four to six months and you have one or more service purchase applications currently pending with us, please let us know so that we may give your service purchase requests priority.

Please be assured that we remain committed to processing all requests as expeditiously as possible.

Are you—or someone you know—entitled to unclaimed funds?

If you are:

- the executor or executrix, or
- the survivor or beneficiary

of a deceased MTRS member or benefit recipient, and neither you nor the member's estate has received a "final payment" of the deceased member's retirement benefit, **the MTRS may have unclaimed funds on account for you.**

Since September 2007, the MTRS has returned a total of $669,756.01 to 188 different estates and beneficiaries of deceased members.

To view our unclaimed funds list, visit mass.gov/mtrs.

Our Massachusetts Te

Who we are—and regarding our fu

A profile of our membership

Who we are…

Active members

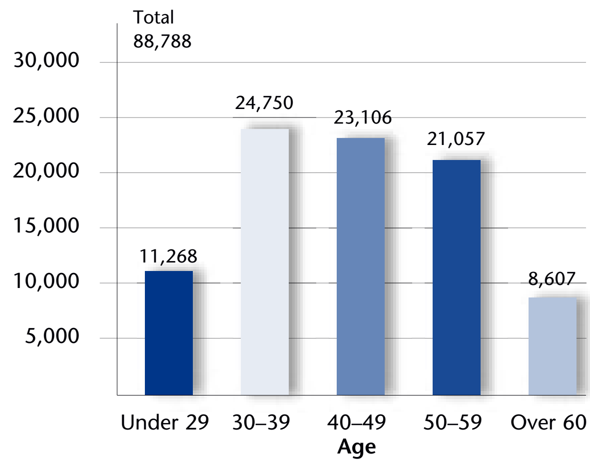
- Average **salary** $67,156
- Average **age** . . . . . . 44 years
- Average **service** . . 12.9 years
- Total member compensation . $5.96 billion
- Employee contributions . . $591 million

Retired members

- Average **annual benefit**. . . . $41,012
- Average **age** . . . . 71.1 years
- Total benefits paid . $2.503 billion

Source: Public Employee Retirement Administration Commission's 2014 Actuarial Valuation of the Massachusetts Teachers' Retirement System, www.mass.gov/perac/teachers/teachersval14.pdf

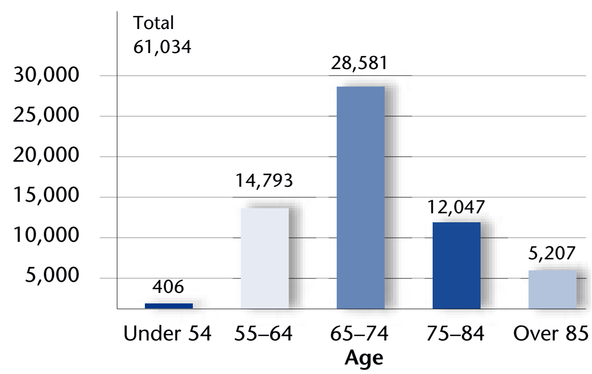
Our active members, by age



In 2004, the ratio of active members to retirees was 5:2, meaning there were five active members for every two retirees.

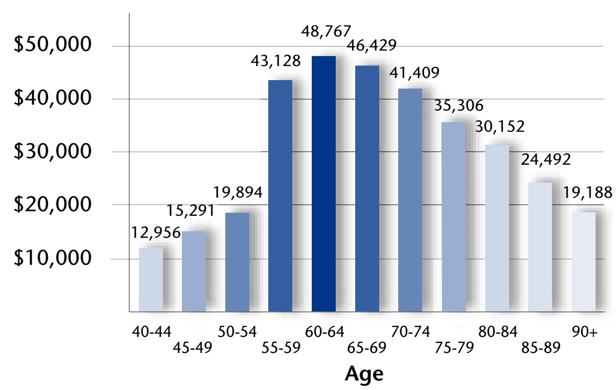
The ratio has now decreased to 3:2, or three active members for every two retirees.

Our retired members, by age



This population has never been greater, with the number of older retirees continuing to grow—including 1,974 now age 90 or over.

Current average benefits by age



While the average benefit by age will vary from year to year based on the ages of new retirees, it has steadily increased over the years, as evidenced by a right-to-left reading of the bar graph.

achers' Retirement System

nding status, where we stand

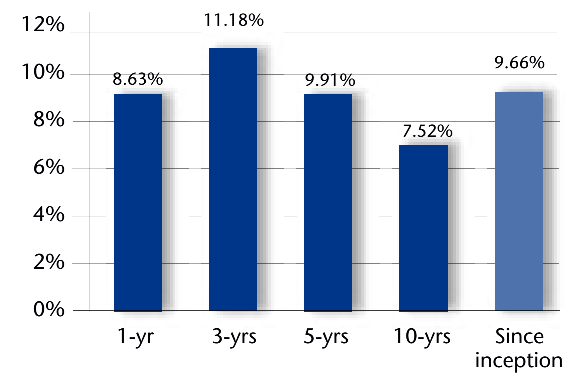
Our funding status

As of April 30, 2015, MTRS assets at $25.046 billion

The assets of the MTRS held in the Pension Reserves Investment Trust (PRIT) reached $25.046 billion as of April 30, 2015. The one-year investment return was 8.63%, the three-year return was 11.18%, and the five-year return was 9.91%. The actuarial assumed investment rate of return is currently 8.00%, with the prospect of being reduced to 7.75% in the foreseeable future.

The PRIT assets are managed by the nine-member Pension Reserves Investment Management (PRIM) Board, which is chaired by State Treasurer and MTRS Board member Deborah Goldberg. Also serving on the Board and representing the interests of the teachers' retirement system are MTRS Board member Dennis Naughton and retiree Robert Brousseau, who is in his twenty-eighth year on the PRIM Board. Michael G. Trotsky, CFA is the Executive Director of the PRIM Board.

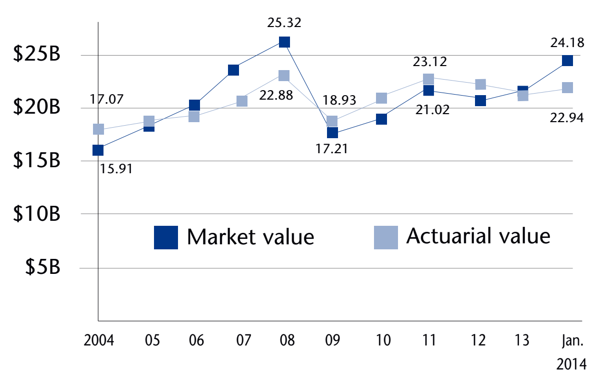
PRIT core fund performance



As of April 30, 2015

The Legislature and State Actuary have set 8 percent as the pension fund's long-term rate of return target.
The system has averaged 7.52 percent over the past 10 years, and **9.66 percent** since its inception in January 1985.

MTRS asset value



The actuarial value of assets is determined via "smoothing" of the market value over a period of five years.

Where we stand…

As of January 1, 2014*

- Percent **funded** 56.3%
- **Unfunded** liability . . . . $17.8 billion
- Year **fully funded** 2036

The Teachers' Retirement System's assets are invested by the Pension Reserves Investment Management (PRIM) Board. As of April 30, 2015, our System's assets of $25.046 billion were invested as follows:

- Global equities 41.7%
- Private equities 11.1%
- Fixed income. 23.6%
- Real estate. 9.9%
- Timber 3.9%
- Hedge funds 9.2%
- Alternative investments. 0.6%

**The next valuation, effective 1/1/2015, is expected to be complete by the fall of 2015.*

For more information about the PRIM Board and the PRIT Fund, visit PRIM's website at mapension.com

The average retirement age: Still rising, slowly

In her research brief entitled The Average Retirement Age—An Update, *published last March, Alicia H. Munnell of the Center for Retirement Research (CRR) at Boston College studied long-term retirement trends to determine whether the average retirement age has continued to rise since the mid-1980s, when an upward trend began. Her findings indicate that a once-steady incline has recently slowed to a slight increase.*

After nearly a century of decline, work activity among older people began to increase in the 1980s in response to a variety of factors. The question is whether the impacts of those factors have played themselves out in recent years or whether the trend toward working longer has continued. Since working longer is the key to a secure retirement, the labor force activity of people in their 50s and 60s is a crucial issue.

This brief proceeds in four steps. The first section describes the turnaround in labor force activity that began in the 1980s, within the context of the long-run decline in the labor force participation of men. The second section describes the factors responsible for that turnaround. The third section looks at the labor force participation rates of men and women for four years—1963, 1983, 2003, and 2013—showing recent workforce activity significantly above the low point in the 1980s. The fourth constructs, for men and women, average retirement ages—the age when 50 percent of the population is out of the labor force. Today's average retirement ages of 64 for men and 62 for women are just about where they were a decade ago, suggesting that some of the factors spurring the turnaround since the 1980s may have exhausted themselves. The final section concludes that, given the importance of working longer for retirement security, a major educational initiative may be warranted to help convince individuals of the benefits.

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A long-term perspective

Beginning around 1880, the percentage of the older male population at work began to decline sharply. Experts attribute this decline to an unexpected and substantial stream of income from old-age pensions for Civil War veterans. As the veterans died off, work rates did not return to their previous levels, a pattern that probably reflects the impact of rising incomes and the reluctance of employers to retain older workers. The next big decline in the work rates of older men occurred after World War II, a response to the increasing availability of Social Security benefits and the expansion of employer pensions. The introduction of Medicare in 1965 and the sharp increase in Social Security benefits in 1972 probably led to the final leg of the decline in workforce activity of older men. And, because benefits were available at 62, Social Security may also explain part of the decline in workforce activity for men 55-64. The downward trajectory stopped around the mid-1980s and, since then, the labor force participation of men 55-64 and men 65 and over has gradually increased. Many factors help explain this turnaround.

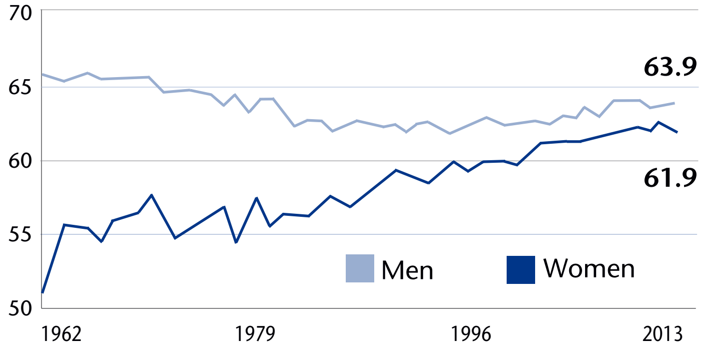
Factors behind the turnaround

The turnaround can be attributed to changes in the provision of retirement income, the health and education of the workforce, the nature of jobs, the advantage of Medicare in a high health cost environment, and non-pecuniary factors. A brief word about each:

- **Social Security**: Program changes made work more attractive relative to retirement. The liberalization, and for some the elimination, of the earnings test removed what many saw as an impediment to continued work. The delayed retirement credit, which increases benefits for each year that claiming is delayed between the Full Retirement Age and age 70, has also improved incentives to keep working.
- **Pension type**: The shift from defined benefit to 401(k) plans eliminated built-in incentives to retire. Studies show that workers covered by 401(k) plans retire a year or two later on average than similarly situated workers covered by a defined benefit plan.
- **Improved health and longevity**: Life expectancy for men at 65 has increased about four years since 1980, and evidence suggests that people may be healthier as well, particularly those with higher socioeconomic status. The correlation between health and labor force activity is very strong.
- **Education:** People with more education work longer. Over the last 30 years, education levels have increased significantly, and the movement of large numbers of men up the educational ladder helps explain the increase in participation rates of older men.
- **Less physically demanding jobs:** With the shift away from manufacturing, jobs now involve more

Excerpted from the Center for Retirement Research (CRR) brief The Average Retirement Age—An Update *and reprinted with permission from the CRR. For the full article and additional information, visit crr.bc.edu.*

Retirement age: National average, 1962–2013



Source: Munnell's calculations from CPS (1962–2013)

knowledge-based activities, which put less strain on older bodies.

- **Joint decision-making:** More women are working, wives on average are three years younger than their husbands, and husbands and wives like to coordinate their retirement. If wives wait to retire until age 62 to qualify for Social Security, that pattern would push their husbands' retirement age towards 65.
- **Decline of retiree health insurance**: Combine the decline of employer-provided retiree health insurance with the rapid rise in health care costs, and workers have a strong incentive to keep working to maintain their employer's health coverage until they qualify for Medicare at 65.
- **Non-pecuniary factors***:* Older workers tend to be among the more educated, the healthiest, and the wealthiest. Until recently at least, their wages have been lower than those earned by their younger counterparts and lower than their own past earnings. This pattern suggests that money may not be the only motivator.

As a result of these various factors, labor force activity has increased for both men and women.

Labor force participation rates: 1963, 1983, 2003, 2013

Considering the percentage of men ages 50-80 in the labor force at each age for four different years reveals many interesting developments, but the most important for the present discussion is that: 1) at ages 60 and above, labor force participation is now noticeably higher than in 1983; and 2) not much has changed between 2003 and 2013. It is also striking, however, that labor force activity at younger ages remains well below that in 1963.

The patterns for women are very different. The role of women changed enormously over the 20th century, and these changes had a profound effect on their labor force participation. Each cohort of women has spent more time in the labor force than the previous cohort, increasing the likelihood that they would be working at older ages. By 2013, a higher percentage of women were in the labor force than ever before. Interestingly, the data for women in their 50s also show that the pattern of ever-increasing labor force participation may have run its course in that the participation rates for 2003 and 2013 are very similar. Thus, changes in the work patterns of older women in the future will have more to do with retirement decisions than cohort effects.

Now the labor force participation rate for women is very close to that for men, particularly for workers over age 65.

Average retirement age

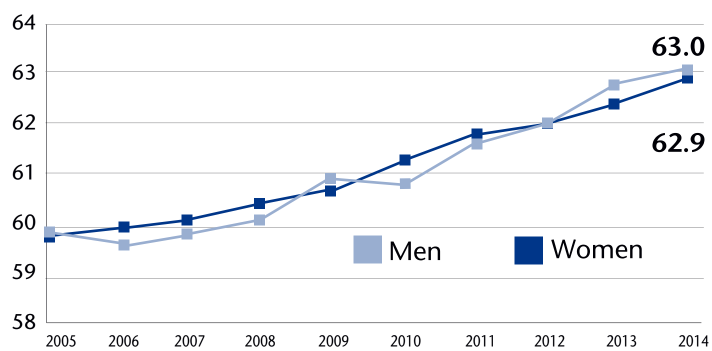
The data on labor force participation can be used to construct an average retirement age, defined as the age at which the labor force participation rate drops below 50 percent. Based on this definition, in 2013 the average retirement age was about 64 for men and about 62 for women (see chart at left).

Determining trends in the average retirement age for women is complicated, because, as discussed, women's work patterns reflect the increasing participation of cohorts over time as well as the factors that affect retirement behavior. While the figure suggests that their retirement age rose dramatically from 55 in the 1960s to 62 in 2013, the apparent low retirement ages in the early 1960s simply reflect the fact that few women had spent much time in the labor force.

Conclusion

The levelling off of the average retirement age suggests that earlier drivers of working longer are no longer having a substantial impact: Social Security's delayed retirement credit is fully phased in; the shift from defined benefit to defined contribution plans is nearly complete in the private sector; delay due to the availability of Medicare has played its role; education is no longer increasing; improvements in health may have stabilized; and increases in longevity may not be salient. Yet, working longer is the key to a secure retirement. Monthly Social Security benefits claimed at age 70 are 76 percent higher than those claimed at 62. The fact that people are always amazed when presented with this information suggests that a major educational initiative may be warranted.

Retirement age: MTRS average, 2005–2014



Since 2005, the average retirement age for current, living MTRS retirees has slowly increased by about 3 years—from 60 to 63—mirroring the national trend for all workers during this period.

NOMINATION PAPERS TO BE AVAILABLE AUGUST 3

Board election to be held this fall for elected-member seats currently held by Karen Mitchell and Dennis Naughton

To provide potential candidates with more time to gather required signatures, nomination period extended by one month

This fall, we will be conducting an election for our two elected members' seats on the Massachusetts Teachers' Retirement Board. The current incumbents are Karen Ann Mitchell, an active teacher with the Plymouth public schools, and Dennis J. Naughton, a retiree of the Millis public schools.

Active and retired members of the MTRS are eligible to run for these unpaid positions, which have a term of four years. If you are interested in being a candidate, you will need to submit nomination papers containing the signatures of 100 eligible voters (active and retired MTRS members) by Thursday, October 15, 2015. Nomination papers will be available from the MTRS on August 3.

For more information on our Board and representatives' duties, please see our website at mass.gov/mtrs.

Who is eligible to run?

You may run if, as of August 1, 2015, you are a member of the MTRS who is:

- actively employed,
- on an authorized leave of absence, or
- retired and receiving a pension from the MTRS.

The term of an elected member is four years, and members serve without compensation.

MTRS files legislative amendments in response to legal decisions

Board seeks to accomplish two goals: To forfeit pensions of convicted sex offenders, and to clarify that private employees of charter schools are ineligible for MTRS membership

We recently filed legislation to correct adverse litigation results in two areas. Specifically:

H.19: Would prevent convicted child sex offenders from receiving MTRS pensions

Section 15 of Chapter 32 provides that "in no event" shall a member convicted of a "criminal offense involving violation of the laws applicable to his office or position" be entitled to a retirement allowance. The MTRS applied that provision to Ronald Garney, a ninth-grade teacher convicted of possessing thousands of images of child pornography. The Board felt that possession of child pornography was inconsistent with the special public trust involved in the position of teacher. Ultimately, however, the Supreme Judicial Court held that Mr. Garney's private possession of those images, though perhaps violating that trust, did not directly contravene the central function of being a teacher where "there [was] no indication that this possession compromised the safety, welfare, or learning of the children whom he was tasked with teaching or impeded his ability to provide adequate educational lessons to his students."

In response to the decision in *Garney*, the MTRS filed a legislative amendment to Section 15 that would redefine the phrase "criminal offense involving violation of the laws applicable to his office or position" to include possession of child pornography under G.L. c. 272, § 29C, as well as other sex offenses involving children. The amendment borrows the definitions of "sex offense involving a child," "sex offense," and "sexually violent offense" from the Sex Offender Registry statute, and essentially provides that any crime against a child that would classify a member as a sex offender would also create a forfeiture of his or her retirement benefit.

H.20: Would clarify that charter school teachers employed by a private management company are *not* eligible for MTRS membership

In *Whipple v. MTRS*, CR-07-1136, the Contributory Retirement Appeal Board (CRAB) initially reached the surprising decision that teachers employed by a private management company in charter schools could enroll in the MTRS. This ruling raised serious concerns about the qualification of the MTRS as a "governmental plan" under the federal Internal Revenue Code. "Governmental plans" can only include public employees, and our status as a governmental plan obtains significant tax advantages for our members. Although CRAB later reversed its ruling, the MTRS felt this question was too important to be left to administrative decision-making and has proposed amendments to the charter school statute.

The amendments would clarify that employees of private management companies are not employees of a charter school, are not eligible for membership in the MTRS, and cannot receive creditable service for their work as employees of a private management company. The draft legislation incorporates helpful comments from the Department of Elementary and Secondary Education, which regards the amendments as merely clarifying its existing position with regard to employees of private management companies.